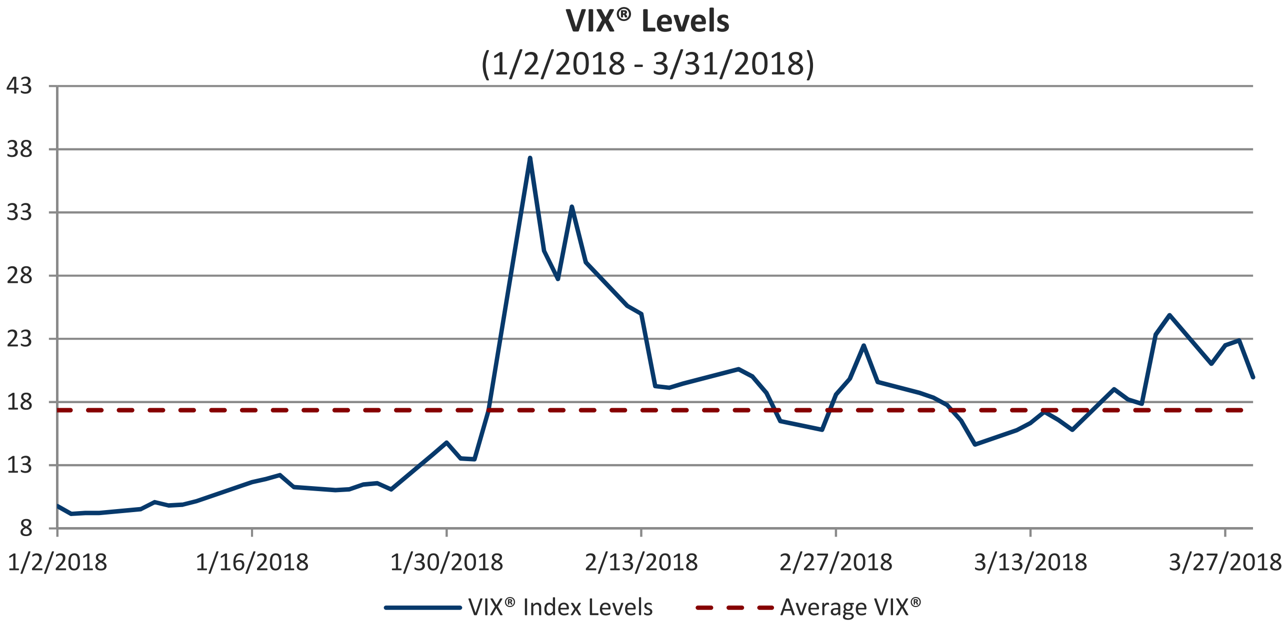
# Market Recap

*Mar. 2018*

The S&P 500® Index declined 0.76% for the first quarter. The slight loss for the quarter masked significant equity market volatility. The S&P 500® Index returned 5.73%, -3.69% and -2.54% for January, February and March, respectively, and the equity market had its first back-to-back losing months since January and February of 2016.

The precise path of equity market advances and declines over the course of the quarter was more severe than the monthly returns. The strong, low volatility advance of the equity market in Q4 2017 continued over the first three weeks of 2018 as the S&P 500® Index returned 7.55% through January 26th. Economic data releases and corporate earnings reports were positive and optimism about the impact of tax cuts also helped drive the market higher. But inflationary fears crept into the market and its momentum quickly changed direction. From its all-time closing high on January 26th through February 8th, the S&P 500® Index lost 10.10%. A significant portion of the decline occurred on Monday, February 5th when the S&P 500® Index lost 4.10% and volatility measures spiked to levels not seen since August of 2015. From its closing value on February 8th through March 9th, the equity market staged a partial recovery with the S&P 500® Index returning 8.21%. But the recovery stalled out as fears of a trade war grew while technology stocks slumped. Several leading technology companies came under pressure in mid-March, including Facebook, Inc. which acknowledged mishandling user profile data, specifically in connection with political consultant Cambridge Analytica's use of data on over 50 million users to target voters in the 2016 election. As the Facebook scandal built, the Trump administration enacted tariffs on steel and aluminum imported from multiple countries and threatened additional trade restrictions on China, ostensibly in retaliation for years of trade and intellectual property violations. The S&P 500® Index declined 7.06% from March 9th through March 23rd, putting the market back near correction territory. A 2.05% advance for the S&P 500® Index over the shortened final week of March was not enough to avoid a negative return for the quarter.

Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 17.35 for the quarter, while S&P 500® Index realized volatility (as measured by its annualized standard deviation of daily returns) was 20.17%. It was the first time since the third quarter of 2015 that realized volatility exceeded average implied volatility for a quarter. The VIX® had a closing high of 37.32 on February 5th and an intra-day high of 50.30 on February 6th, the highest VIX® reading since August 2015. The closing low for the VIX® was 9.15 on January 3rd.

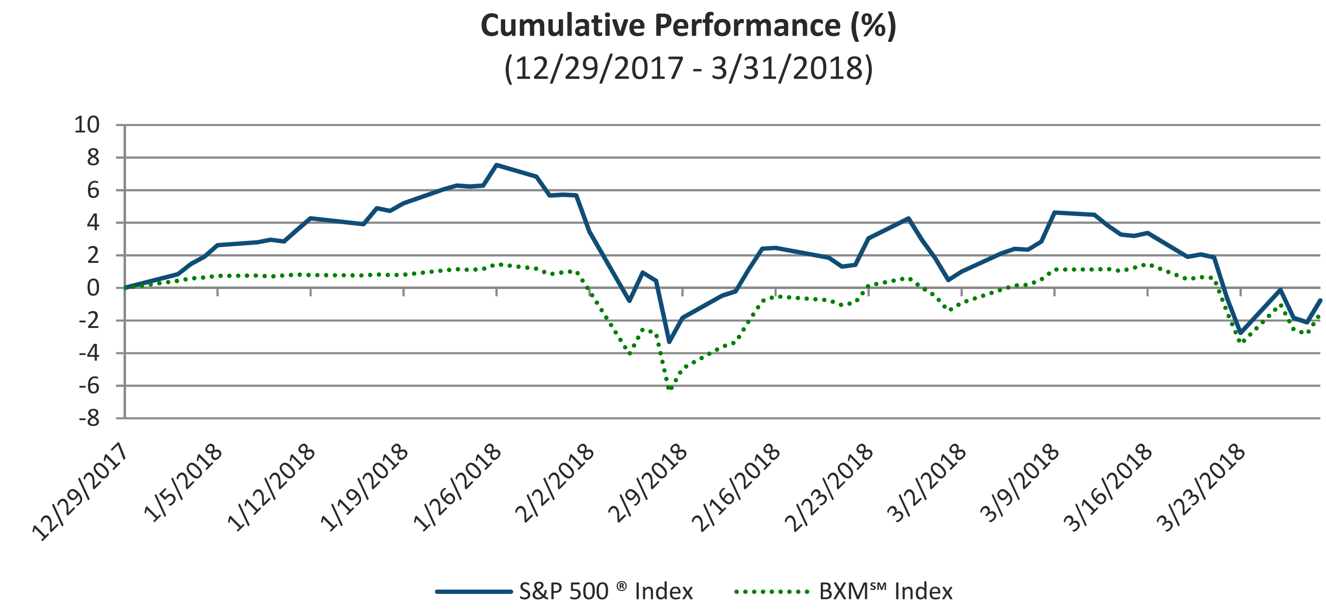



Datasource: Bloomberg, L.P.

Despite equity market losses and a significant uptick in volatility, data releases suggested the market backdrop of an expanding economy and robust earnings growth remained intact, while inflationary pressures showed unexpected signs of life. The January Consumer Price Index (CPI) release on February 14th reported a 0.5% increase in prices for the month and a year-over-year change of 2.1%, both data points exceeded consensus expectations. The February CPI showed a year-over-year change of 2.2%. On March 28th, the final estimate of fourth quarter GDP growth came in at 2.9%, which exceeded consensus expectations and was an upward revision of the previous estimate of 2.5%. Nearly 84% of S&P 500® Index companies reporting fourth quarter earnings results met or exceeded expectations, as aggregate operating earnings grew 5.0% during Q4 and 17.2% year-over-year.

The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠), had a return of -1.56% for the first quarter. The BXM's℠ underperformance relative to the S&P 500® Index for the quarter was primarily due to the BXM's℠ lagging performance during the market advance in January. Specifically, the BXM℠ returned 1.46% from the beginning of the year through January 26th, underperforming the S&P 500® Index by 609 basis points (bps). The BXM℠ delivered downside protection relative to the equity market during both the January-February correction and the mid-March market decline. From January 26th through February 8th, the BXM℠ returned -7.72% and from March 9th through March 23rd it returned -4.53%. The BXM℠ outperformed the S&P 500® Index by 238 bps and 253 bps in each respective period.

[1]The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The construction methodology of the BXM℠ includes buying an equity portfolio replicating the holdings of the S&P 500® Index and selling a single one-month S&P 500® Index call option with a strike price approximately at-the-money each month on the Friday of the standard index option expiration cycle and holding that position until the next.




Datasource: Bloomberg, L.P. **Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.**

The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned -1.46% for the first quarter. It was the first quarter since Q3 2008 that returns for both the stock and bond markets were negative. The yield on the 10-year U.S. Treasury Note rose from 2.41% on December 31st to a high for the quarter of 2.95% on February 21st, and then declined to end the quarter at 2.74%.